



# Vantage Point

A newsletter for investors serious about their financial future.

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By Tim Chapman

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## 1Q10



# Is it springtime or just

By **Tim Chapman,**  
Chairman and CEO  
of Stadion



**O**n the first day of spring here in Georgia, the weather was 75 degrees and sunny with crystal blue skies. It was an especially glorious day compared to the dreadful winter we had this year with below-average temperatures, rain, snow, and wind. I don't expect sympathy from my friends around the country who suffered even worse, but nevertheless it was the most unpleasant winter I can ever remember.

The past couple of months I had to remind myself often that even the coldest winter inevitably gives way to spring. Knowing this somehow makes the tough times more bearable. The certainty of coming change doesn't make bad days more fun, but it does keep us from being overly emotional about the weather.

I encourage you to take the same outlook on the stock market. History shows that the market moves in cycles. Bull markets are followed by bear markets which are followed by bull markets, etc. Any rational investor should know that markets won't be good or bad forever, but the uncertainty of timing can lead to emotionally induced irrational behavior. Unfortunately, stock market cycles aren't as predictable as the weather.

About 100 years ago, Charles Dow expressed the opinion that investors tend to believe whatever is happening today will happen forever. At a time like this, when the market is up, investors are tempted to pull out of more even-keeled investments and get into something with a dramatic return. But just as it won't be winter forever, it won't be spring forever either. Soon the sweltering hot days of summer will be upon us. In other words, you could lose all of the gains that those high risk-return investments produced—and then some.

That's why we believe our steady investment strategy works best in the long run. It is completely void of emotion, and we always know whatever cycle we're in will inevitably come to an end. We might not capture the highest highs of the market, but we also don't give back all of our gains in market downturns.

## **Ups Within Downs, and Downs Within Ups**

The uncertainty of the market is compounded by the fact that there are cyclical (short-term) cycles inside secular (long-term) cycles. In other words, the market can be

good or bad for 10 to 20 years, but during that stretch, one should expect short-term periods that go against the trend.

For instance, consider the secular bull market that lasted from 1982 to 2000. It was an unprecedented period of stock market growth, but that 18-year period contained some tough cyclical bear markets like the crash of '87, the bear market in 1990 prior to the first Iraqi conflict, and the 1998 financial crisis brought on by the collapse of the Russian ruble. Those trying times were the equivalent of a snowstorm hitting in June.

Since 2000, we've been in a secular bear market. Over a 10-year period, we've experienced the worst two bear markets since the Great Depression, but we've also had two nice cyclical bull markets from October 2002 through October 2007 and most recently a dramatic run-up in prices from the March 2009 lows.





# a sunny day in winter?



I don't want to be pessimistic; after all, it is springtime now. But investors who think this current bull market will last forever and don't consider the possibility that it's just a sunny day in the middle of winter could be setting themselves up for another punch in the financial gut, so to speak.

## Look East

Consider this market condition analysis of a certain 10-year period presented by Mike Glasior, a prescient economist and newsletter writer:

- Super high P/E ratios
- Followed by a stock market collapse
- Banking crisis
- Corporate debt crisis
- Real estate bubble
- Historically low interest rates
- Ballooning government debt

One would almost certainly conclude that Glasior was writing

about what has happened in the U.S. over the past 10 years, but it's actually what happened in Japan in the 1990's. The orange line on the chart below tells the story much better than words ever could.

As you can see, the Nikkei stood at 39,000 in 1990 and has been in a secular bear market for the last 20 years. There have been lots of "sunny days in winter," as you can see from the cyclical bull markets during that time, but the overall secular trend has been awful. For investors in that market, it didn't matter how much of the cyclical bull markets was captured if the gains were wiped away by the cyclical bear market that followed.

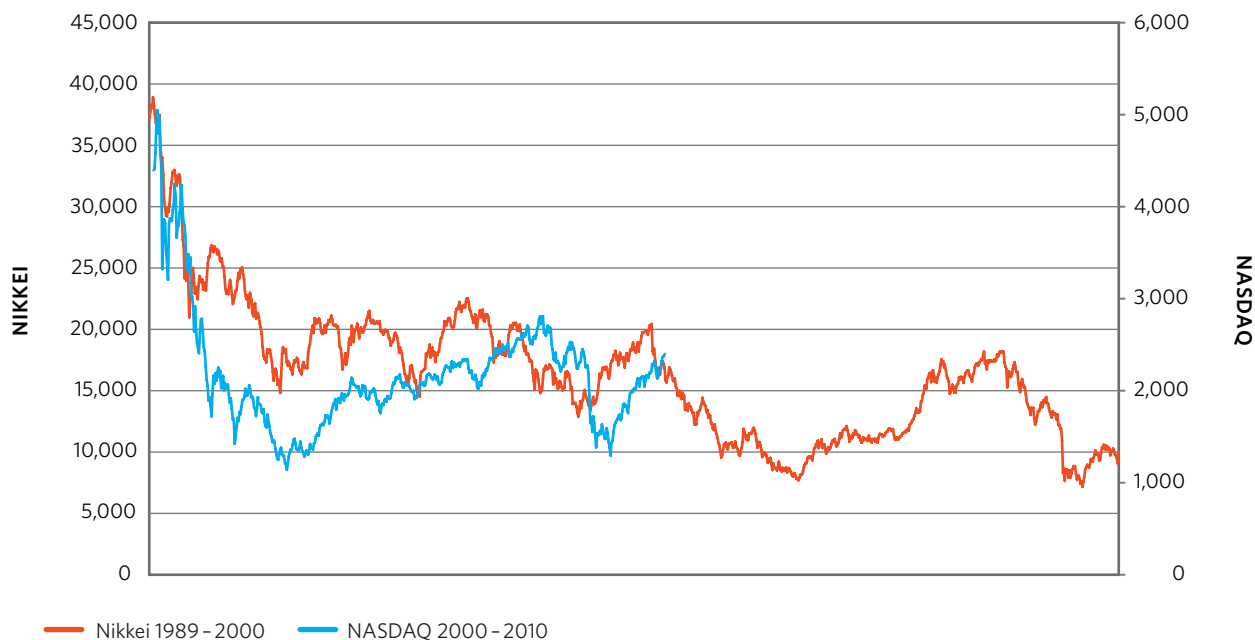
Now for the back-to-reality wakeup call. The blue line on the chart below shows the NASDAQ beginning in 2000. We think the NASDAQ is the most relevant U.S. index when it comes to measuring

just how healthy—or unhealthy—our stock market is, and the charts are eerily similar as you can see.

Please don't misunderstand me. I am not saying the current secular bear market still has 10 years of devastation ahead. I would never say that, because I can't predict the future. But no one else can either. So when politicians, talking heads on TV, or your next door neighbor tells you the bad times are definitely over, you should take their "prediction" with a grain of salt.

The truth is, this could be the start of the next 18-year secular bull market, but it also could be nothing more than a sunny day in the middle of winter. At Stadion, we will continue to enjoy it while it lasts, but we're not yet ready to put the heavy coat into storage.

## Similarities between the Nikkei 1989-2000 and the NASDAQ 2000-2010



# Quarterly Review

An overview of how we've been managing the Stadion accounts this quarter.

## Asset Allocation Commentary 1Q10

After a strong start in the first week of 2010, growing concerns about U.S. bank restrictions, Fed Chief Bernanke's reappointment, the upcoming Federal Open Market Committee announcement, monetary tightening in China, and disappointing corporate earnings created an unnecessarily high-risk environment. Stadion's indicators reacted to protect client assets. The market's uncertainty and rising risk levels drove our model to its most bearish levels by the end of the month, shifting our emphasis from growing your money to protecting it.

When Stadion's Investment Model changes risk level—for example, moving to a higher risk level from its most bullish stance or vice versa — our sell criteria adjusts accordingly. When we move from a stronger market environment to a weaker one, we become less tolerant of stock prices dropping, and thus sell positions more quickly if they decline in value.

Following its bottom on February 8, the market rallied for nearly three weeks, during which prices trended higher. Despite this upward trend, the market was still in negative territory for the year. Our indicators, however, picked up on this underlying strength and directed our tactical portfolios back into the market. We were fully invested again by the end of the first week of March and — with price, sentiment, and breadth all

giving positive indications — we have remained fully invested since, taking advantage of a market trend so powerful that at one point during March, SPY (the ETF that tracks the S&P 500) was up for 14 consecutive days.

As the quarter closed, catalysts such as healthcare reform, continued flux in the European markets, and poorly subscribed Treasury auctions caused the markets to move sideways and become increasingly volatile. Despite this, our model continued to remain at its lowest market risk reading, signaling full equity exposure. When we entered the equity markets at the beginning of March, we initially allocated to top-performing, broad-based investments. As the rally evolved, some of the sectors and styles that were early performers in the rally stagnated and began underperforming on a relative basis. In response, our selection process initiated trade-ups with the intent of creating portfolios with the best possibility of taking part in the market's upturn.

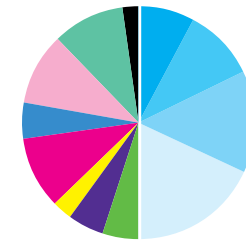
As of early April, the Stadion Investment Model remains bullish. But through our indicators we will continue to keep a guarded eye on the financial markets. ■

## Active Management 1Q10

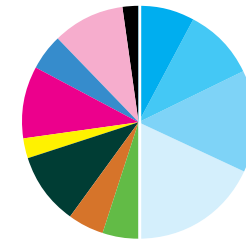
The pie charts below illustrate the holdings in your portfolio on various dates during the first quarter of 2010.

### Stadion Core Advantage Portfolio

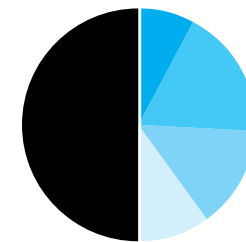
December 31, 2009



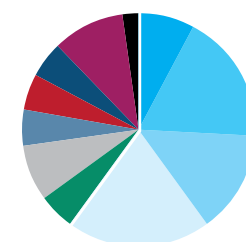
January 5, 2010



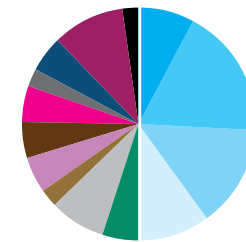
January 28, 2010



March 5, 2010

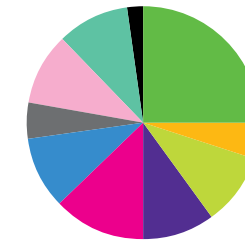


March 31, 2010

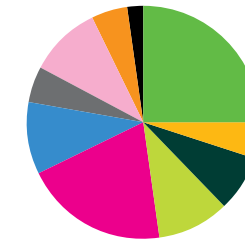


### Stadion Managed Portfolio

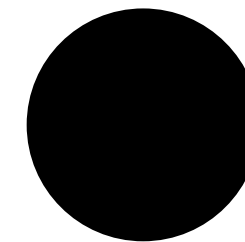
December 31, 2009



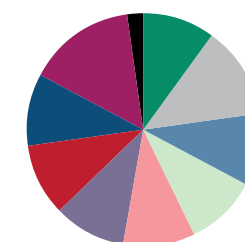
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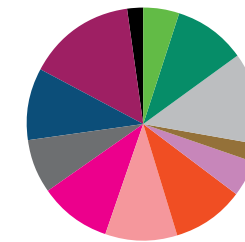
January 28, 2010



March 5, 2010



March 31, 2010



### Key

Color	Fund
Light Green	ISHARES RUSSELL 2000
Pink	SPDR S&P MIDCAP 400 ETF TRUST
Dark Blue	SPDR S&P 500 ETF TRUST
Light Green	SPDR DJIA TRUST
Yellow	ISHARES DJ SELECT DIVIDEND
Dark Green	ISHARES S&P MIDCAP 400
Light Blue	ISHARES S&P MIDCAP 400/GRWTH
Blue	ISHARES S&P SMALLCAP 600/VAL
Brown	ISHARES DJ US AEROSPACE & DF
Orange	ISHARES RUSSELL MICROCAP INX
Dark Green	ISHARES RUSSELL 2000 GROWTH
Light Green	ISHARES RUSSELL MIDCAP GRWTH
Pink	ISHARES DJ US FINANCIAL SECT
Orange	ISHARES DJ US REAL ESTATE
Dark Blue	ISHARES DJ US TRANSPORT AVG
Brown	SPDR KBW INSURANCE ETF
Yellow	ISHARES S&P PREF STK INDX FN
Pink	POWERSHARES QQQ
Blue	RYDEX S&P EQUAL WEIGHT ETF
Dark Blue	INDUSTRIAL SELECT SECT SPDR
Pink	TECHNOLOGY SELECT SECT SPDR
Red	CONSUMER STAPLES SPDR
Light Green	UTILITIES SELECT SECTOR SPDR
Dark Blue	CONSUMER DISCRETIONARY SECT
Orange	SPDR S&P OIL & GAS EXP & PR
Pink	SPDR S&P RETAIL ETF

### Core

Color	Fund
Blue	ISHARES MSCI EAFE INDEX FUND
Light Blue	ISHARES RUSSELL 2000
Light Blue	SPDR S&P MIDCAP 400 ETF TRUST
Light Blue	SPDR S&P 500 ETF TRUST

### Cash Allocations

#### Stadion Core Advantage Portfolio

Color	Fund	Date	Allocation
Black	MONEY MARKET	12/31/09	2.0%
Black	MONEY MARKET	01/05/10	2.0%
Black	MONEY MARKET	01/28/10	50.0%
Black	MONEY MARKET	03/05/10	2.0%
Black	MONEY MARKET	03/31/10	2.0%

#### Stadion Managed Portfolio

Color	Fund	Date	Allocation
Black	MONEY MARKET	12/31/09	2.0%
Black	MONEY MARKET	01/05/10	2.0%
Black	MONEY MARKET	01/28/10	100.0%
Black	MONEY MARKET	03/05/10	2.0%
Black	MONEY MARKET	03/31/10	2.0%

## Market Watch

# Likely Not Out of the Woods Yet

The first three weeks of 2010 mimicked market directional changes commonplace in 2009. After a run-up in week one, stock prices hovered fleetingly for a few days, and then in week three slipped south in response to growing market uncertainty. Although most equity indexes produced solid gains by year's end, at times the 2009 market struggled to find footing. Following the 2008 collapse, we saw repeated pullbacks just short of an "official" correction (defined as a 10% peak-to-trough decline) that rattled nervous investors.

But with 2008 memories dimming, investors seem to have turned a corner since the January fluctuations, buying these dips as they become less concerned about the possibility of another big downturn. Is this bullish trend something more than an uptick in a secular bear market? There is plenty of reason to stay alert, including massive budget and trade deficits. The Obama administration's new deficit numbers are not pretty with the deficit for fiscal year 2009 coming in at \$1.42 trillion, more than triple than the previous year's.

This might be a good time to remind ourselves that the secular bear market that began in 2000 may still have claws. The 18-year bull market (1982-2000) that preceded this bear was long and strong. It wouldn't be surprising to see more down markets ahead of us. Many don't remember that the Nikkei in Japan was once even more powerfully supported than our own longer term bull market before it began its long, painful descent. The "lost decade" (2000 - 2009) for US markets pales in comparison to the "lost quarter century" of the Nikkei. But even secular bear markets present good opportunities for profit. The key is to know when and what to buy and when to sell.

In line with that, in the first quarter of 2010 we were able to side-step volatility in late January and early February, and then with our model signaling opportunity, we participated in March's upswing and continued that progress into April.

As always, we appreciate your confidence in Stadion's approach to managing and protecting assets. ■

## Time for a Financial Checkup

Just as you might visit your doctor annually for a physical checkup, now is a good time to schedule an appointment to review the health of your finances with your financial advisor. While Stadion's investment products serve as tools to help you reach your goals, your financial advisor can help you set these goals and determine how to achieve them. Here are a few things you could discuss with your advisor:

- Roth IRA Changes.** Those previously denied access because of their income level can now create a Roth and receive investment gains free of tax. Investors can also convert tax-deferred individual retirement plans into Roths by paying the taxes. One additional appeal of a Roth: It does not require withdrawals for those older than age 70 ½, as a traditional IRA does. Ask your advisor if a Roth is right for you.
- Investment Strategy.** Your investment strategy largely depends on the amount of time you have until retirement. As you get closer to retiring, shifting your investments to a more conservative position will help safeguard your nest egg against market risk. On the contrary, a younger investor can more aggressively try to capture more of the market's gains, because they have more time to make up any losses that might result.

- 401(k) Contribution.** During the past couple of years, many employers have changed the structure of their company-sponsored 401(k) match. Likewise, during these tough times many people have lowered or even stopped their personal contributions. Regardless of what you've been doing, there is no better time to review your budget for discretionary expenses and increase your 401(k) contribution. You would be surprised what a difference even a 1% increase can make.
- Budget.** Although creating a budget is timely and tedious, updating an existing budget may be necessary if your salary, marital status, children, or home has recently changed. A good first step is recording your spending for one month and categorizing each expense as fixed, other committed, or discretionary. Your overall financial decisions will likely depend on particular areas of your budget.

If you do not have a financial advisor, we are happy to refer you to one. Just call us at 800.222.7636 or email [support@stadionmoney.com](mailto:support@stadionmoney.com).

## Stadion's Branding Wins Recognition

Although our company is nearly two decades old, we are celebrating the one-year anniversary of its rebranding as Stadion Money Management. In 2009 the corporate names of PMFM Inc. and 401k Toolbox were merged into a single, unified brand. One year later, Stadion is honored to be recognized as one of the most effective rebranding efforts in the world by REBRAND™, a global resource focused on brand transformations.

To read the article and view images of Stadion's rebranding, please visit [www.stadionmoney.com](http://www.stadionmoney.com).

## Employee Spotlight



**Jon Higham** joined our Sales and Advisor Service team in 2009. At Stadion, Jon conducts client, advisor, and plan sponsor meetings

on our investment products, as well as guides advisors on our strategies via conference calls and webcasts. Prior to joining Stadion, Jon spent the past 10 years working in financial services.

Jon and his wife Jennifer recently welcomed a new addition to their family. William Parks Higham was born on February 26, 2010, joining his 2-year-old brother Brayden. In his spare time, when not changing diapers, Jon enjoys cooking with family and friends, competing in triathlons, and boating on Lake Oconee.

## What does the "Trend Capturing" component of the Stadion Investment Model really show?

Trend Capturing identifies positive market trends that have a high probability of continuing into the future. There are three components of our Trend Capturing indicator. In combination, they allow us to take a closer look at current trends in the market. For example, if one indicator turns positive, the model is telling us there is a positive price trend developing. When the second of these indicators turns positive, it provides confirmation of the trend. If the third turns positive, it proves that there is a very solid trend in place.

For a visual representation of our Trend Capturing indicator, log on to [www.stadionmoney.com](http://www.stadionmoney.com) and watch our "How We Manage Money" video.



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## Remember

If there have been any changes in your financial situation or investment objectives or if there are any reasonable restrictions or modifications you wish to place on your account, please notify us by calling 800.222.7636.

## Stadion Sponsored PGA Event

Stadion was proud to serve as the title sponsor of the Stadion Athens Classic at UGA, a Nationwide Tour event held April 29 - May 2 at the University of Georgia Golf Course. The sponsorship gave us the opportunity to build our national brand while supporting local charities and needs-based scholarships at UGA. The tour's Tickets Fore Charity program enabled participating nonprofits in Athens, Georgia to sell tickets and keep 100% of the ticket price. Including other PGA Tour events, this program has raised over \$4 million for charities.

To learn more about the tournament, visit the tournament website, [www.stadionathensclassic.uga.edu](http://www.stadionathensclassic.uga.edu) or contact Stadion directly.

